Some firms put off IPOs, pick pvt route

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UNCERTAIN MARKET CONDITIONS, valuation mismatch and tighter regulatory requirements are prompting a lot of companies to put plans for initial public offerings (IPOs) on the back burner.

API Holdings, Droom Technology, Wellness Forever, Aprameya Engineering, Imagine Marketing and Waaree Energies are among those that have withdrawn their draft prospectus in the past few months, as per reports. Several of them are in the process of raising funds from existing or new investors or through structured deals.

PharmEasy parent API Holdings, which withdrew its IPO citing market conditions and strategic considerations, kicked off its rights issue last month to raise ₹750 crore. Solar panel manufacturer Waaree Energies reportedly raised about ₹1,000 crore from investors last month after withdrawing its draft prospectus. Digital payment provider MobiKwik, whose IPO approval lapsed in October, has raised ₹55 crore in debt from BlackSoil and Karnation.

Last week, Imagine Marketing, which operates audio gear and wearables brand boAt, said it was raising around ₹500 crore in a fresh round of equity funding led by existing backer Warburg Pincus and new investor Malabar Investments.

"Most lead arrangers and investment bankers are advising IPO-bound firms to either temper their valuation expectations or hold the IPO till markets stabilise," said Vivek Soni, partner and national leader, private equity services, EY India.

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HITTING THE BRAKES

Companies	IPO status	amt* (₹cr)
API Holdings	Withdrawn	6,250
FirstCry	Postponed	6,000
Droom Technology	Withdrawn	3,000
Imagine Marketing	Withdrawn	2,000
MobiKwik	Lapsed	1,900
Wellness Forever	Withdrawn	1,500
Waaree Energies	Withdrawn	1,500
Aprameya Engineering	Withdrawn	500

*Estimated issue amount (₹cr)

Source: Prime Database; news reports

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"Those that have the money are choosing to come back later. Those that don't are raising funds from new or existing investors, or through structured debt," Soni said.

According to him, institutional investors are unable to underwrite valuations similar to 2021 levels on account of the significant increase in cost of capital and rise in business uncertainty. Retail investors, on the other hand, are wary of IPOs of new-age technology companies after the dismal performance of those that listed last year.

Shares of Paytm, PB Fintech and Nykaa, popular new-age names that listed last year, are down 52%, 59% and 52%, respectively, in the year to date.

"IPOs are now near-impossible for the new-age companies, especially considering how share prices of the firms listed in the past year have tanked.

Companies will have to wait for business dynamics to improve and show profitability in at least a few quarters. Pricing will have to be more reasonable and cannot be at a substantial premium to the previous rounds of funding," said Pranjal Srivastava, partner – investment banking, Centrum Capital.

API Holdings, at its annual general meeting held a few days ago, said it hopes to turn profitable on an Ebitda-level in the next four-five quarters. New-age tech companies CarDekho and Cars24 said recently that they want to become profitable before tapping the market for an IPO.

Even raising money through the private rounds has become difficult and companies are mostly turning to existing investors for additional funding.

"A lot of the companies that are raising private capital are not doing it out of choice," said Kenneth Serrao, founder and chief investment officer, OAKS AMC.

"There is a huge challenge in going public right now as some of these companies don't have a clear path to profitability and are chasing growth at any cost. A private fundraise allows you to buy time to get to scale and/or profitability."

Recent regulatory changes have added to the woes of companies wanting to go public. Issuers now have to disclose pricing details based on secondary sale or acquisition of shares 18 months prior to the IPO. If there have been no transactions in this period, information has to be disclosed on the basis of the last five primary or secondary transactions, not older than three years prior to the IPO.

"Startups are gravitating towards wherever capital is available. Tech stocks have been falling and it is definitely not a good time to do an IPO. If a company needs capital right now, there are growth stage VCs or PEs they can turn to," said Gaurav Chaturvedi, partner, Kae Capital.

The S&P 500 has fallen 19% in the year to date, while the Nasdaq Composite, comprising mostly of technology stocks, is down 30%. Industry players believe that the markets globally will stabilise only after the US Fed pauses on rate hikes and geopolitical tensions abate.

"On private market transactions, investors have reset their valuation appetite, but sellers are yet to get there, leading to a bid-ask spread in most transactions. Structured trades will increase as a means of bridging valuation gaps and with the days of low cost of capital behind us, an active value creation agenda is expected to occupy top-of-mind recall for funds and portfolio companies," said Soni.